

## GODREJ CONSUMER PRODUCTS LTD.

**HOLD**

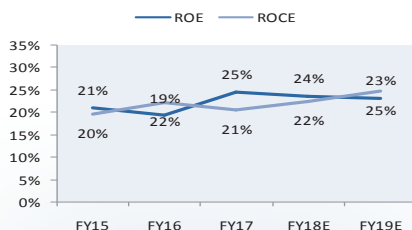
10-May-17

INDUSTRY - Con. Staples  
BSE Code - 532424  
NSE Code - GODREJCP  
NIFTY - 9352

### Company Data

CMP	1929
Target Price	<b>HOLD</b>
Previous Target Price	
<b>Upside</b>	
52wk Range H/L	1956/1286
Mkt Capital (Rs Cr)	65,710
Av. Volume (,000)	166

### RoE & ROCE

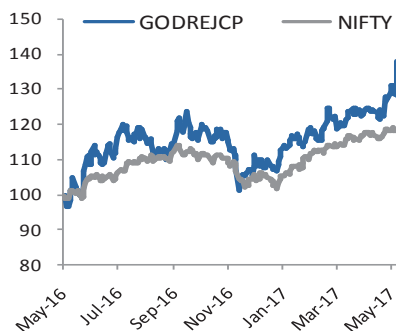


### Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	63.3	63.3	63.3
Public	36.7	36.7	36.7
Total	100.0	100.0	100.0

### Stock Performance %

	1Mn	3Mn	1Yr
Absolute	13.6	23.4	45.5
Rel.to Nifty	12.3	17.2	25.1



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### Key Highlights of the Report:

- ✓ GODREJCP's Q4FY17 numbers are better than our expectation. Revenue for Q4FY17 grew by 13%YoY to Rs 2489 cr (Vs expectation of Rs 2473)
- ✓ Surprised us on margin front. Gross margin improved by 282 bps YoY to 58.5% (Vs expectation of 57%).EBITDA margin improved by 147 bps YoY to 22.1%(Vs expectation of 20%).
- ✓ Domestic volume for this quarter grew by 5%.
- ✓ We expect better growth led by GST and see similar margin or improvement in margin going forward as indicated by management. On International business front we expect African business to grow at 15% CAGR for next two year backed by strong growth in SON . We still hold positive view on GODREJCP but as stock has run up sharply after result so we presently recommend 'HOLD' rating on it.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	8,276	8,753	9,609	10,553	12,011
EBITDA	1,365	1,636	1,913	2,119	2,291
EBIT	1,275	1,535	1,772	1,954	2,131
PAT	907	828	1,304	1,483	1,649
EPS (Rs)	27	24	38	44	48
EPS growth (%)	19%	-9%	58%	14%	11%
ROE (%)	21%	19%	25%	24%	23%
ROCE (%)	20%	22%	21%	22%	25%
BV	127	125	156	184	208
P/B (X)	15.2	15.4	12.4	10.5	9.3
P/E (x)	72.4	79.4	50.4	44.3	39.8

### Domestic business segmental growth:

- ✓ Domestic Household Insecticides (HI) business grew by 4% YoY to Rs 665 cr impacted by erratic weather in March especially in North India.
- ✓ Hair colour grew handsomely by 13% YoY led by double digit volume growth as compared to decline of 2% in previous quarter. Godrej Expert Rich Crème reaches highest ever market share on exit basis.
- ✓ Soap business performance is better than expectation, grew by 9% YoY to Rs 358 cr led by mid-single digit volume growth.
- ✓ The company launched HIT Gel Stick with a price point of Rs 30 in this quarter.

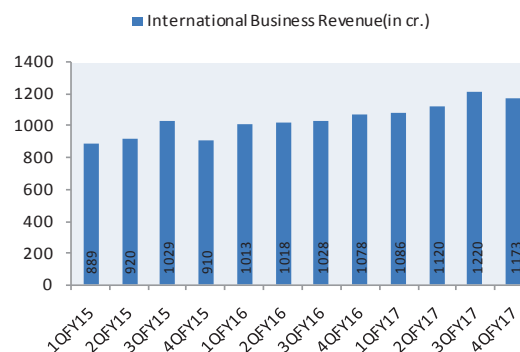
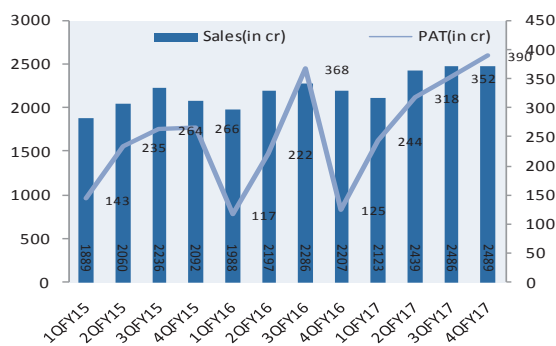
## Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	2,207	2,123	2,439	2,486	2,489	13%	0%	8,753	9,609	10%
Other Income	11	14	17	19	26	145%	36%	84	60	-29%
COGS	979	982	1,059	1,057	1,034	6%	-2%	3,867	4,133	7%
Ad & P Expenses	154	168	203	192	155	1%	-19%			
Employee Cost	229	249	241	256	247	8%	-3%	944	988	5%
Other Expenses	313	343	391	381	403	29%	6%	1,977	2,234	13%
EBITDA	456	381	466	517	551	21%	7%	1,636	1,913	17%
Depreciation	28	33	36	36	37	30%	2%	101	142	41%
Interest	25	33	35	40	38	50%	-4%	119	145	22%
PBT	418	330	412	447	497	19%	11%	1,500	1,686	12%
Tax	102	75	91	99	115	12%	16%	336	379	13%
PAT	125	244	318	352	390	212%	11%	828	1,304	58%

### Better revenue growth led by better domestic business performance

Gross margin improved by 282 bps YoY in Q4FY17.

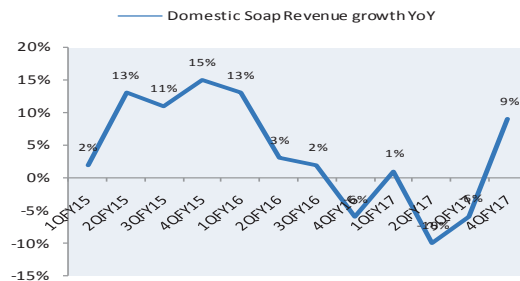
- ✓ GODREJCP has reported Q4FY17 result better than our expectation. Revenue for Q4FY17 grew by 13%YoY to Rs 2489 cr whereas our expectation was Rs 2473 cr.
- ✓ Surprised us at margin front. Gross margin improved by 282 bps YoY to 58.5% (Vs expectation of 57%).EBITDA margin improved by 147 bps YoY to 22.1%(Vs expectation of 20%).
- ✓ Domestic volume for this quarter grew by 5% better than other FMCG players DABUR (2.4%) and EMAMILTD(3%).
- ✓ International business delivered 6% constant currency (CC) sales growth mostly driven by Africa and Latin America in Q4FY17.
- ✓ International business EBITDA margin improved by 150 bps YoY to 19.6%.
- ✓ Indonesia business remained flat in CC term with Rs 389 cr revenue (Vs expectation of Rs 402 cr) in Q4FY17.
- ✓ PAT without exceptional grew by 22% YoY to Rs 390 cr in Q4FY17 and for full year PAT grew by 58% to Rs 1304 cr.



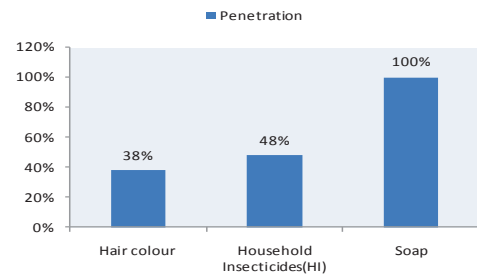
Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	55.7%	53.8%	56.6%	57.5%	58.5%	2.8%	1.0%	55.8%	57.0%	1.2%
EBITDA Margin	20.7%	17.9%	19.1%	20.8%	22.1%	1.5%	1.3%	18.7%	19.9%	1.2%
PAT Margin	5.7%	11.5%	13.0%	14.2%	15.7%	10.0%	1.5%	9.5%	13.6%	4.1%

- ✓ Gross margin for this quarter improved by 282 bps YoY to 58.5% led by lower input prices, product mix and price hike. On yearly basis gross margin improved by 117 bps to 57%.
- ✓ EBITDA margin improved by 147 bps YoY to 22.1% led by 282 bps YoY decline in COGS, 76 bps YoY decline in A&P expense and 47 bps YoY decline in employee expenses in Q4FY17 whereas other expenses went up by 202 bps YoY.
- ✓ PAT margin remained 15.7% in Q4FY17 as compared to 5.7% in Q4FY16 due to onetime exceptional item loss of Rs 189 cr in Q4FY16.

### Domestic Soap Revenue growth YoY



### Segments Penetration



Make balance between capital allocation and Div. Payout.

### Concall Highlights(Q4FY17):

- ✓ The company will maintain margin going forward. Try to improve it further.
- ✓ Focus to improve ROCE going forward. The company will make balance between capital allocation and Dividend payout going forward.
- ✓ Confident of strong growth in medium to long term .
- ✓ The company has seen recovery in consumer demand in Q4FY17.
- ✓ Indonesian business: competitive intensity is decreasing in insecticide business. Expect better growth going forward. Non insecticide business grew by 9% in Q4FY17. Insecticide business maintained market share.
- ✓ For the full year working capital has been reduced. The company sees it going down further.
- ✓ The company launched HIT Gel Stick with a price point of Rs 30 in this quarter.
- ✓ Domestic Soap business: The Company has initiated selective price increases in soap portfolio and is scaling back consumer and trade offers.
- ✓ The company is ready to leverage acquisition of Strength of Nature to build Wet Hair Care platform in Africa.
- ✓ European business: Overall demand environment remains challenging. Adjusted EBITDA margins increased by 590 bps YoY led by judicious marketing investments and one-time reversal of A&P provisions in Q4FY17.

## Investment Arguments:

- ✓ **Innovation and new product launches:** The Company gets 25% to 40% of sales growth from launch of new products historically. Going forward, the company will maintain innovation, launch new products, intensify introduction on Lower Unit Pack (LUP) which will deliver better growth going forward.
- ✓ **Lower penetration gives opportunity:** GODREJCP is present in less penetrated segment as compared to other FMCG players like Hair Colour(38%) and HI(48%). It will give it enough room to grow further.
- ✓ **Relatively less impacted by Patanjali:** If we see our FMCG basket, GODREJCP has minimum overlap of products with Patanjali than any other players. Hence we expect very less impact on the volume of GODREJCP due to expansion of Patanjali.
- ✓ **Expectation of better revenue from Indonesian market:** Indonesian market contributes approx. 17% of company's revenue. We expect it to improve going forward as company has plans to launch several hair care and personal care products in Indonesian market in next 6-12 months which will improve company's volume going forward. Secondly company is planning to ramp up its distribution reach to double in next 3-5 year which will translate into better volume growth from Indonesia going forward.
- ✓ **African business (Potential growth driver):** African business grew by 19% YoY in constant currency (CC) terms and 54%YoY including Strength of Nature in Q3FY17. We expect similar growth in Q4FY17. Although African business is facing some currency headwinds but by localizing production facility and increasing prices company is expected to counter it. Going forward management sees continuous margin improvement from African business in next 3-5 years.

### Indonesian Market Constant Currency(CC) growth



### Africa Constant Currency(CC) growth



## View & Valuation

The company has reported better numbers for Q4FY17. Domestic volume grew handsomely by 5% YoY. EBITDA margin improved by 147 bps YoY in an inflationary environment. International business EBITDA margin also improved by 150 bps YoY to 19.6%. Going forward management indicated that they will maintain margin and also try to improve it. GODREJCP is present in less penetrated segment as compared to other FMCG players such as Hair color and Home Insecticide. It gives GODREJCP enough room to grow further. As far as international business in concern, we expect better revenue growth from Indonesian market going forward as company is expanding its distribution reach and launching new products and for African business we expect 15% CAGR for next two year led by strong growth in Strength of Nature(SON). Considering all this we still hold positive view on GODREJCP but stock has run up sharply after result so we presently recommend 'HOLD' rating on it.

## Financials Snap Shot

Income Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
<b>Revenue from Operation</b>	8,753	9,609	10,553	12,011
Change (%)	6%	10%	10%	14%
<i>Other Operating Income</i>				
EBITDA	1,636	1,913	2,119	2,291
Change (%)	20%	17%	11%	8%
<b>Margin (%)</b>	<b>19%</b>	<b>20%</b>	<b>20%</b>	<b>19%</b>
Dep & Amortization	101	142	165	160
EBIT	1,535	1,772	1,954	2,131
Interest & other finance cost	119	145	101	77
Other Income	84	60	64	77
EBT	1,500	1,686	1,917	2,131
Exceptional Item	(334)	0	-	-
Tax	336	379	431	479
Minority Int & P/L share of Ass.	3	5	5	5
Reported PAT	828	1,304	1,483	1,649
<b>Adjusted PAT</b>	<b>1,086</b>	<b>1,304</b>	<b>1,483</b>	<b>1,649</b>
Change (%)	18%	20%	14%	11%
Margin(%)	12%	14%	14%	14%

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	19%	25%	24%	23%
ROCE	22%	21%	22%	25%
Asset Turnover	0.9	0.7	0.8	0.9
Debtor Days	46.62	39.08	39.08	39.08
Inventory Days	54.5	53.7	53.7	53.7
Payable Days	62	65	65	65
Interest Coverage	12.90	12.20	19.37	27.84
P/E	44	43	38	34
Price / Book Value	10.3	10.2	8.9	7.9
EV/EBITDA	32	30	27	25
FCF per Share	19	48	47	50
Dividend Yield	0.4%	0.9%	1.0%	1.2%

## Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume Growth(domestic)	10%	4%	7%	12%
Realization Growth(domestic)	-1%	1%	5%	5%

Balance Sheet				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	34	34	34	34
Reserves	4,233	5,268	6,216	7,054
<b>Networth</b>	<b>4,267</b>	<b>5,302</b>	<b>6,250</b>	<b>7,088</b>
Debt	2631	3341	2441	1541
Other Non Current Liab	313	1,238	327	327
Total Capital Employed	6,898	8,643	8,691	8,629
Net Fixed Assets (incl CWIP)	1,831	3,524	3,453	3,364
Non Current Investments	-	-	-	-
Other Non Current Assets	4,339	4,969	4,969	4,969
<b>Non Current Assets</b>	<b>6,259</b>	<b>8,814</b>	<b>8,423</b>	<b>8,334</b>
Inventory	1,307	1,413	1,551	1,766
Debtors	1,118	1,029	1,130	1,286
Cash & Bank	613	895	822	1,004
<b>Other Current Assets</b>	<b>305</b>	<b>830</b>	<b>613</b>	<b>836</b>
Current Assets	3,494	4,217	4,117	4,891
Creditors	1,485	1,724	1,893	2,155
Provisions	70	90	99	113
Other Current Liabilities	315	307	337	384
Curr Liabilities	2,533	3,150	2,330	2,652
<b>Net Current Assets</b>	<b>962</b>	<b>1,067</b>	<b>1,787</b>	<b>2,240</b>
Total Assets	9,754	13,031	12,539	13,225

Cash Flow Statement				
	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
PBT	1,503	1,678	1,909	2,124
(inc)/Dec in Working Capital	(482)	293	(31)	(49)
Non Cash Op Exp	116	142	165	160
Interest Paid (+)	100	145	101	77
Tax Paid	(336)	(379)	(431)	(479)
others	(41)	-	-	-
<b>CF from Op. Activities</b>	<b>839</b>	<b>1,873</b>	<b>1,766</b>	<b>1,836</b>
(inc)/Dec in FA & CWIP	(208)	(237)	(173)	(127)
Free Cashflow	631	1,636	1,592	1,709
(Pur)/Sale of Investment	(330)	1,249	232	(200)
others	43	(667)	(15)	(23)
<b>CF from Inv. Activities</b>	<b>(495)</b>	<b>(1,720)</b>	<b>123</b>	<b>(294)</b>
inc/(dec) in NW	0	-	-	-
inc/(dec) in Debt	157	710	(900)	(900)
Interest Paid	(119)	(145)	(101)	(77)
Dividend Paid (inc tax)	(225)	(613)	(698)	(776)
others	-	(9)	-	-
<b>CF from Fin. Activities</b>	<b>(187)</b>	<b>(58)</b>	<b>(1,698)</b>	<b>(1,752)</b>
Inc/Dec) in Cash	157	96	190	(210)
Add: Opening Balance	404	613	709	899
Closing Balance	561	709	899	689